



Ministerie van Binnenlandse Zaken en  
Koninkrijksrelaties

Ministerie van Buitenlandse Zaken



MCL-16(2009)12final

## **Council of Europe Conference of Ministers responsible for Local and Regional Government**

*“Good local and regional governance in  
turbulent times: the challenge of change”*

*16th Session, Utrecht, 16 - 17 November 2009*

**Utrecht Declaration**

## **THE UTRECHT DECLARATION ON GOOD LOCAL AND REGIONAL GOVERNANCE IN TURBULENT TIMES: THE CHALLENGE OF CHANGE**

We, the European Ministers responsible for Local and Regional Government, meeting in Utrecht on 16 and 17 November 2009 for the 16th Session of our Conference,

As a further step in our co-operation, have come together to:

1. decide steps and measures to enhance the work of the Council of Europe in the field of local and regional democracy;
2. address the impact of the economic downturn on local government and the role of central government in removing obstacles to transfrontier co-operation;
3. have an occasion to sign two new Council of Europe instruments, the Additional Protocol to the European Charter of Local Self-Government on the right to participate in the affairs of a local authority and Protocol No. 3 to the European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities concerning Euroregional Co-operation Groupings (ECGs), as well as to adopt a reference framework for regional democracy, and
4. adopt the Utrecht Agenda for the work of the Council of Europe in support of our common objective of delivering good local and regional governance to all citizens.

As a result of our 16th session we adopt the following specific declarations:

### **I. (A) DECLARATION ON THE IMPACT OF FINANCIAL/ECONOMIC CRISIS ON LOCAL AND REGIONAL GOVERNMENT**

We, the European Ministers responsible for Local and Regional Government, meeting in Utrecht on 16 and 17 November 2009 for the 16<sup>th</sup> Session of our Conference,

Concerned about the shockwaves the current global economic crisis is sending through all our member States affecting them at all levels and in all sectors;

Having examined the impact of the economic crisis on local government in our member States on the basis of our individual experiences and the document prepared by the European Committee on Local and Regional Democracy in co-operation with the Local Government and Public Service Reform Initiative of the Open Society Institute;

#### **CONSIDERING THAT**

1. the economic crisis is already having a measurable impact on local government in our member States, with both a reduction of revenue and an increase of expenditure causing a budget squeeze;
2. so far, the impact differs significantly within and between countries both in terms of scale and in terms of timing;

3. these differences result from a variety of causes, notably the severity of the downturn, the parallel fortunes and responses of national government, the nature of the local government revenue and its vulnerability to economic change as well as time-lags in taxation systems;

4. unfortunately and notwithstanding signs of recovery in some sectors, the budget squeeze for local government in many cases is likely to get worse before it gets better because cushioning effects will wear off and the full extent of the cost to communities and people to be borne by local authorities will only become apparent in the months and years to come; moreover the increase in social expenditures arising from recession will be exacerbated in the long term by the ageing of European populations;

#### **AGREE THAT**

5. we, the European ministers responsible for local and regional government must take responsibility in our areas of competence to mitigate, counter and overcome the impact of the economic crisis, and all the more so because it has potentially wide destructive effects on social cohesion and risks exacerbating societal tensions degenerating into extremism;

#### **AFFIRM THAT**

6. the pressure on available resources at all levels further underlines the importance of our common objective of delivering good local and regional governance;

7. to that end local and central government each have their part to play in facing up to, sharing the burden of and overcoming the economic crisis;

8. central governments have a clear responsibility in the resourcing of local authorities, whilst underlining that all levels of government have an obligation to maximise efficiency;

9. because of their knowledge of communities, people and businesses at local and regional level, local and regional government can be extremely powerful actors in addressing the needs of citizens and facilitating business in overcoming the economic crisis;

10. whilst the means to be deployed will differ over time and vary from place to place, there will be a constant need for efficient and effective collaboration between all stakeholders - central government, local and regional authorities and their associations - in order to transform the economic crisis from a threat into an opportunity for improvement;

11. exchanging and sharing information and experience at local, regional, national and international level, as well as the identification of good practices this enables, will be key to achieving success at the earliest possible time;

12. any and all action must remain fully compatible with the obligations of member States under the European Charter of Local Self-Government;

#### **COMMIT OURSELVES**

*As concerns our respective domestic situations:*

13. to ensure efficient and effective collaboration between all stakeholders - central government, local and regional authorities as well as their associations – and;

14. to make use of the guidelines for policy responses to the impact of the economic crisis on local government appended to this declaration in order to counter, mitigate and overcome the impact of the crisis;

*As concerns our co-operation:*

15. to develop and make the best possible use of our membership of the Council of Europe to exchange and share information and experience as well as to identify good practices;

16. to contribute to continued collection of financial and policy data and ensure appropriate participation in a review conference to be held in the second half of 2010;

17. to make use of and help develop further the Council of Europe's capability to organise peer reviews, provide legislative and policy assistance as well as capacity building programmes;

18. to work together on the implementation of the Utrecht Agenda as it appears below;

19. to review the overall situation as regards the impact of and responses to the economic crisis on local government at our 17th session;

#### **INVITE**

20. the Congress and the Parliamentary Assembly to participate in the work to be carried out as set out above.

In view of the wide-ranging impact the economic crisis is having on the social and societal fabric of our member States and thus on human rights, democracy and the rule of law,

#### **WE FURTHER RECOMMEND**

21. to the Council of Europe as a whole and the Committee of Ministers in particular to reinforce its focus on the quality of governance (good democratic governance) and to establish it as a transversal dimension to guide all intergovernmental activities.

## GUIDELINES FOR POLICY RESPONSES BY CENTRAL GOVERNMENT TO THE IMPACT OF THE ECONOMIC CRISIS ON LOCAL GOVERNMENT

### I. General

1. Any policy response by central government to the impact of economic downturn on local government must be fully compatible with its obligations under the European Charter of Local Self-Government (CETS 122), which recognises that questions as to the financial resources for local authorities are to be determined within a Party's national economic policy.

2. The two recommendations of the Committee of Ministers in the field of local finance: Rec(2004)1 on financial and budgetary management at local and regional levels and Rec(2005)1 on the financial resources of local and regional authorities, offer a powerful and coherent set of guidelines aimed at ensuring a sound local finance system, many of which are ever the more useful in the context of the economic downturn.

3. The economic crisis has generated a widespread recognition of the need for radical improvements in governance and in the management of public expenditure. Whilst the means to be deployed will differ over time and vary from place to place, there will be a constant need for increasing efficiency across the whole of the public sector, and hence for greater collaboration between all the stakeholders, central government, local and regional authorities as well as their associations. The aim should be to remove duplication and to drive down costs arising from a lack of co-ordination, integration and of flexibility in the delivery of public services, not only to meet the demands of the current fiscal situation, but also to be better placed to address longer term social and economic change.

4. Exchanging and sharing information and experience at local, regional, national and international level, as well as the identification of good practices this enables, will be key to achieving success at the earliest possible time.

### II. Possible policy responses identified so far

The survey of member States carried out in preparation of the 16th Session of the Council of Europe Conference of Ministers responsible for local and regional government has identified five main possible policy responses, which are reviewed below. It is to be stressed that the feasibility and desirability of these options vary from country to country and thus are to be seen a range of policy options and not a prescriptive set of measures.

The five main options identified so far are:

1. Reform of intergovernmental financial relations
2. Improving accountability and efficiency
3. Improved targeting of social benefits
4. Innovative re-design of public services
5. Enhancing local flexibility and discretion

### *Reform of intergovernmental financial relations*

Major changes in the distribution of responsibilities and resources between levels of government are unlikely since in most of the countries surveyed the national budgets have suffered more severely than those of local government. Moreover local governments need to retain and develop their competences innovatively to respond to economic and social challenge.

### *Local revenue bases*

Governments and local authority associations might wish to consider changes in those local revenue bases which depend substantially on shares of highly volatile taxes such as those on corporate profits and value added, since these fit precariously with a high percentage of fixed, recurrent commitments like public employee wages and service maintenance.

Personal income is the only tax base which is both technically susceptible to variation by local decision and capable of funding a large proportion of the costs of major services, such as education and social and health care. In reforming local revenue bases governments may wish to continue expanding the local sharing or surcharging of personal income taxation, a recent trend across Europe. That expansion should continue if major progress in fiscal autonomy is to be made, but accompanied by an adequate system of equalising differences in the tax base and avoiding unduly high rates to minimise adverse effects on labour market supply in an increasingly globalised world.

### *Discretion to set local tax rates and charges*

Whatever the short term desirability of restraint, the longer term period of recovery will probably demand increases in local taxes and charges and the Charter's requirement of local autonomy in this respect should be respected. Local government discretion to set the rates of local taxes and charges should be enhanced in those countries where it is still highly restricted. This applies particularly to the taxation of property. Experience across Europe has shown that cautious but regular increases in tax rates in line with, or just ahead of the general rate of inflation, are a necessary condition for maintaining the tax's significance.

### *Control over taxation pressure*

Experience of previous recessions suggests that pressure will mount to increase taxes and charges once economic recovery is well in progress. Two considerations, however, argue for some restraint. For some kinds of taxation –notably personal income tax (PIT) – high tax rates may have long term effects on labour supply. The second is that a number of national laws and policies impose restrictions to ensure that local taxation does not discriminate unfairly between domestic and business payers.

### *Benchmarks to assess local finance policies*

Attention can usefully be given to the set of benchmarks developed by the Council of Europe - Centre of Expertise for Local Government Reform - and OSI/LGI to assess both the intergovernmental financial relations and the quality of the financial management performed by local authorities. Considerable use has been made of the benchmark on financial management, and both these benchmarks, along with other benchmarks states may develop, could be very useful for governments seeking to understand their strengths and weaknesses and aiming at reforming intergovernmental financial relations in response to the crisis and beyond.

### *Improving accountability and efficiency*

#### *Cost control*

Most effort so far this year has gone into cuts in administrative overheads. These may well be justified, but this is only one area for achieving efficiency savings. Furthermore, some of these tend to be short-term freezes which do not affect long-term efficiency. Governments and local authorities should strive for more fundamental examination of the practical ways in which services are run, and work to re-design service delivery, making use, as appropriate, of both public and private sector partners. This may be assisted by several value-for-money and benchmarking techniques which have been developed in individual countries, as also by the Council of Europe and the Open Society Institute. Budgetary information should be readily understandable by the public and open to public scrutiny.

A drive to increase efficiency can be associated with implementation of the Council's current ambitious Strategy for Innovation and Good Governance at Local Level. Municipalities should be encouraged to seek award of its European Label of Governance Excellence (ELOGE) for reaching a certain level of quality in their overall governance<sup>1</sup>.

---

<sup>1</sup> Based in particular on a benchmark/measuring tool specifically tailored to the needs of local authorities, the label will be launched following a road test to start in late 2009.

### *Performance audit*

Both national and local governments should endeavour to train and employ sufficient personnel to apply performance audit, both externally and internally, to all local authorities and their service institutions, and to stimulate public interest in their findings.

### *Removing incentives to expensive service provision*

National and local governments should reform those administrative and financial arrangements which encourage services like health and social care to be provided in an unnecessarily expensive way. Funding norms, for example, should be based on numbers of elderly people, rather than those in residential care.

### *Reviewing unsustainable norms*

Responsibilities delegated to local governments should not be regulated by national governments (and sectoral ministries in particular) in ways that debar local initiatives to make services more efficient. Such regulations often apply to the most expensive services like education and health care, prescribing types and levels of input rather than outcome. Signatories of the European Charter should ensure that national ministries do not micro-manage services entrusted to local government whether technically delegated or not.

### *Delegating institutional management*

Similarly, local governments should so far as possible delegate budgets and their managements to their service institutions, so that their directors are encouraged to maximise efficiency in the use of their resources. In doing so, they should take full account of exogenous variations in cost such as population density and social background in allocating resources between institutions. Audit and other forms of accountability should also match degrees of financial delegation. Political steering capacities and political accountability of local government bodies should be maintained.

### *Territorial re-organisation and cooperation*

National and local governments could consider territorial reorganisations which can reduce expenditure on administrative overheads, increase economies of scale, particularly in highly fragmented systems of local government and which may open the way to achieving a re-design of service delivery, both driving down costs and improving service quality. Such re-organisations may well include the types of amalgamation recently undertaken in Denmark, Latvia and Turkey and ongoing in Finland, or the kind of re-organisations implemented this year in certain areas of the United Kingdom. Savings along with quality improvements may be achieved, as in the case of Austria, France and Hungary by encouraging, including through appropriate incentives, greater co-operation between local authorities, both in operating services and undertaking administrative tasks.

### ***Improved targeting of social benefits***

Governments could apply means testing to the allocation of social benefits to ensure that funds are adequate to increase or sustain assistance to those who are in real poverty. Both national and local governments should also review their benefit procedures to ensure that the poor are not hindered from access by legal and bureaucratic obstacles.

### ***Innovative re-design of public services***

Given both the immediate effects of the fiscal crisis and the longer term ageing of European populations, governments could consider redesigning local public services to increase partnership across the public and private (commercial and not for profit) sectors, including with non-governmental organisations and offer more practical support to care for the aged and infirm provided by families and neighbours. Such innovative re-design might be part of a territorial re-organisation or an inter-municipal co-operation programme.

### ***Enhancing local flexibility and discretion***

The downturn has demonstrated the dependence of local fiscal fortunes on differences in national policy. But this should not be exacerbated by a deliberate or instinctive re-centralisation of authority. The kind of efficiency gains and re-design of services outlined above are more likely to be achieved through more local flexibility and discretion, not less. It will be important for governments to create the circumstances where such flexibility and discretion can flourish, including removing administrative and legal barriers and ensuring that the tasks legally required of local authorities remain commensurate with the available resources.